



THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



ACQUISITION AND
TECHNOLOGY

MAY 10 1999

Ms. Deidre Lee
Administrator
Office of Federal Procurement Policy
Office of Management and Budget
Washington, D.C. 20503

Dear Ms. Lee:

Our Value Engineering Report for Fiscal Year 1998 is enclosed. The Military Services and Defense Agencies reported Value Engineering benefits of \$914 million from in-house actions and another \$109 million from contractor-initiated Value Engineering Change Proposals. These combined totals are a 45 percent increase over Fiscal Year 1997. During Fiscal Year 1998, we emphasized the new Federal Acquisition Regulation deviation that increased the contractor incentives by increasing the maximum sharing period to five years, increasing the maximum acquisition sharing rate to 75 percent, increasing the maximum collateral sharing rate to 100 percent, and by allowing Value Engineering proposals initiated during development to reap savings during production. We encourage our program managers and contractors to apply the Value Engineering methodology to maximum advantage.

The Value Engineering Program Manager for the Department of Defense is:

Laurence W. Paulson
Department of Defense
Office of the Under Secretary of Defense
(Acquisition & Technology)
Test, Systems Engineering and Evaluation/Systems Engineering
5109 Leesburg Pike, Suite 310
Falls Church, VA 22041-3466
(703) 681-4535; (fax) 681-3415
E-mail: paulsolw@acq.osd.mil

Questions should be addressed directly to Mr. Paulson.



J. S. Gansler

Enclosure





ACQUISITION AND
TECHNOLOGY

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010



MAY 10 1999

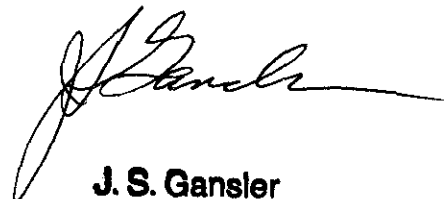
MEMORANDUM FOR: SEE DISTRIBUTION

Subject: Fiscal Year 1998 Department of Defense Value Engineering Report

The subject Value Engineering annual report is attached for your information and use. The Military Services and Defense Agencies reported Value Engineering benefits of \$914 million from in-house actions and another \$109 million from contractor-initiated Value Engineering Change Proposals. While these combined totals are a 45 percent increase over Fiscal Year 1997, there remains a large disparity across the Services. Clearly we are missing opportunities for Value Engineering savings that can help us achieve our force modernization requirements. I encourage you to use the Value Engineering Federal Acquisition Regulation deviation that improves the contractor incentives by increasing the maximum sharing period to five years, increasing the maximum acquisition sharing rate to 75 percent, increasing the maximum collateral sharing rate to 100 percent, and by allowing Value Engineering proposals initiated during development to reap savings during production.

I encourage the use of Value Engineering independently and as a program management tool to reduce costs. I would like each of you to apply the Value Engineering methodology to maximum advantage on all programs. I hope to achieve the strategic goal of Value Engineering savings exceeding one percent of Total Obligation Authority established in the Fiscal Year 1996-1997 Department of Defense Value Engineering Strategic Plan.

Questions should be referred to the Department of Defense Value Engineering Program Manager, Larry Paulson at (703) 681-4535.



J. S. Gansler

Attachment:
As stated

